Tiffany (NJ) Inc. et al v. eBay Inc. Doc. 19

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

TIFFANY (NJ) INC. and TIFFANY AND COMPANY,

Plaintiffs,

v.

eBAY INC.,

Defendants.

Case No. 04 Civ. 4607 (NRB)

PLAINTIFFS' MEMORANDUM OF LAW IN OPPOSITION TO DEFENDANT'S MOTION TO AMEND ITS ANSWER

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PLAINTIFFS' MEMORANDUM OF LAW IN OPPOSITION TO DEFENDANT'S MOTION TO AMEND ITS ANSWER

PRELIMINARY STATEMENT

Plaintiffs Tiffany (NJ) Inc. and Tiffany and Company ("Tiffany") submit this memorandum of law in opposition to the motion of defendant eBay Inc. ("eBay") to amend its answer.

This action is not complex. The issue before the Court is whether eBay is liable for direct and contributory infringement of Tiffany's trademarks by virtue of the direct and indirect assistance that it provides to, and the profits it derives from, individuals who sell counterfeit Tiffany goods on eBay. There is no dispute that Tiffany's trademarks are valid. There is no dispute that counterfeit goods are sold on eBay. And there is no dispute that no one has the right ever to sell counterfeit Tiffany goods, be it on eBay or on Canal Street. The only dispute before the Court is whether eBay is akin to an innocent landlord, or whether its direct and indirect support of counterfeiters on its auction sites, with knowledge of their activities and the means to stop it, makes it liable as well for such illegal activity.

To distract attention from its own business model, eBay asks the Court to allow it to amend its Answer to allege a defense of unclean hands, based on email communications produced in discovery and a web page that eBay permitted Tiffany to post on the eBay website. eBay would have the Court believe, based on its characterization of the communications, that Tiffany has a practice of telling the world that no one can buy genuine Tiffany merchandise on eBay. But an examination of the very communications on which eBay relies to support its argument reveals the bankruptcy of that argument. The fact is that Tiffany does not make the claimed statement. Rather, it is candid with the people with whom it is communicating (all of whom were attempting to sell, whether knowingly or not, counterfeit Tiffany goods) that they can sell the goods if they can establish that the goods were purchased in the first instance from Tiffany. Tiffany does not interfere, and there is no evidence that it has interfered, with the right of people to sell genuine second-hand Tiffany goods.

As discussed below, eBay's amendment would be futile. The evidence that eBay submits to the Court in support of its motion does not constitute "inequitable conduct". There is no evidence of "bad faith". Finally, even assuming that Tiffany had been making "false statements" as eBay asserts, there is no nexus between Tiffany's conduct and the rights that it seeks to enforce here, *i.e.*, the right to be protected from the sale of counterfeit goods. For each of these independent reasons, as a matter of law, eBay's assertion of an unclean hands defense is demonstrably without basis. Allowing the defense to go forward will unnecessarily complicate these proceedings. eBay's motion should be denied.

ARGUMENT

POINT I

DEFENDANT'S MOTION TO AMEND ITS ANSWER SHOULD BE DENIED BECAUSE THE PROPOSED AMENDMENT IS FUTILE

A proposed amendment should not be allowed if it would be futile. Here, as set forth below, such is the case because eBay's proposed unclean hands defense is insufficient as a matter of law. The evidence that eBay proffers in support of its motion simply does not support a claim of unclean hands.

Under Federal Rule of Civil Procedure 15(a), the decision to permit or deny an amendment to a pleading rests in the sound discretion of the Court. *See Ruffolo v. Oppenheimer & Co.*, 987 F.2d 129, 131 (2d Cir. 1993). When the proposed amendment is futile, however, leave to amend should be denied. *Health-Chem Corp. v. Baker*, 915 F.2d 805, 810 (2d Cir. 1990). Courts apply the same standard as applied on a motion to dismiss under Rule 12(b)(6) of the Federal Rules of Civil Procedure, *i.e.*, whether the newly asserted claims fail as a matter of law. *See Ruffolo,* 987 F.2d at 131 ("[w]here it appears that granting leave to amend is unlikely to be productive . . . it is not an abuse of discretion to deny leave to amend."); *Dougherty v. Town of North Hempstead Board of Zoning Appeals*, 282 F.3d 83, 87-88 (2d Cir. 2002).

Under New York law, a party asserting a defense of unclean hands must show that: (i) the other party engaged in an unconscionable act; and (ii) the act is directly related to the subject matter of the action. *See De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate, Inc.*, No. 04 Civ. 4099 (DLC), 2005 WL 1164073, at *3 (S.D.N.Y. May 18, 2005). The failure to establish each of these prongs requires rejection of the defense.

The gist of eBay's proposed unclean hands defense is that Tiffany has in bad faith made "persistent false statements" to eBay users and the general public "that, unless they purchase Tiffany items directly from Tiffany itself, they are buying counterfeit merchandise." Memorandum of Law in Support of eBay's Motion to Amend its Answer ("eBay Memo") at 1-2. To support that proposition, eBay relies on testimony of Tiffany employees, a copy of Tiffany's "about me" webpage, a Tiffany advertisement from *Bazaar* Magazine and a sheaf of emails between Tiffany personnel and various eBay users.

eBay, however, has fundamentally misrepresented the substance of Tiffany's communications. Even when read in the light most favorable to eBay, they do not say what eBay asserts that they do. A review of those materials reveals that they are examples of Tiffany's legitimate efforts to protect its trademarks against the ongoing deluge of counterfeit Tiffany goods offered for sale on eBay and that they do not contain any false statements. Similarly, eBay's strained effort to impart bad faith to Tiffany suffers from a dearth of support. Moreover, even if for purposes of eBay's motion the Court views eBay's allegations as true, there is no nexus between Tiffany's alleged inequitable conduct and the subject matter of this litigation.

POINT II

THERE IS NO EVIDENCE THAT TIFFANY'S CONDUCT WAS INEQUITABLE AND WAS IN BAD FAITH

eBay has received thousands of pages of Tiffany's correspondence with the proprietors of eBay auction items which offer "Tiffany" merchandise and it has deposed Ewa Zalewska, Esq., the Tiffany employee most directly involved in Tiffany's policing of eBay auction sites for counterfeit goods. Based on that discovery, eBay has selected certain emails and promotional materials to documents its assertion that Tiffany has engaged in "inequitable" conduct. *See* Declaration of R. Bruce Rich, dated August 11, 2005 ("Rich Declaration"), Exs. B-G. Tiffany's conduct is "inequitable," according to eBay, because Tiffany has made "false statements" to the public that "only items purchased directly from Tiffany can be authentic or legitimate Tiffany merchandise." *See* eBay Memo at 10. In fact, as the attachments to the Rich Declaration themselves demonstrate, Tiffany has never communicated such a message to anyone.

A. Tiffany's Conduct Was Not Inequitable

The Supreme Court has stated that a party seeking equitable relief "shall have acted fairly and without fraud or deceit as to the controversy in issue." *Precision Instrument Manufacturing. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 814-15 (1945). As a matter of law, Tiffany's conduct meets this standard. There is no evidence from which a trier of fact could infer that Tiffany acted fraudulently or deceitfully with respect to its right to protect its trademarks. When read in their entirety, as the recipients did, the communications that eBay cites as containing "false" statements demonstrate that the statements were directed to the purchase of allegedly brand-new Tiffany jewelry that was advertised as authentic. In all the email communications attached to eBay's motion, Tiffany was confronting sellers who purported to be retail alternatives to the purchase of genuine, new jewelry from Tiffany. Tiffany expressly acknowledged the ability to sell used jewelry on eBay, when it told various individuals that they could sell the purported Tiffany pieces on eBay if they had proof of purchase from Tiffany.[1]

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[1] Despite all of its accusations against Tiffany, eBay does not contend, nor could it, that any of the individuals with whom Tiffany was communicating were selling genuine goods. eBay's observation that, prior to 2000, various trade accounts in the United States sold Tiffany merchandise is just that -- an observation. *See* eBay Memo at 5. The fact is that since 2000 the only sources for consumers to buy new Tiffany merchandise have been from Tiffany stores, Tiffany mail order catalogs, or from Tiffany's internet site. eBay offers no evidence that any Tiffany goods sold through authorized "Tiffany" boutiques

Footnote continued on next page

See, e.g., Rich Declaration, Ex. B (TCO 043623-24; TCO 000154). Tiffany also informed individuals that it was not interested in items that were not meant for resale. *Id.* (TCO 039082-84).

Contrary to what eBay asserts, in none of the communications in Exhibits B-E to the Rich Declaration on which eBay relies does Tiffany communicate that the only way to obtain authentic Tiffany jewelry is to buy through Tiffany itself. Rather, it states that the only way to ensure that jewelry advertised as "new" is, in fact, authentic is to buy from Tiffany itself -- a distinction apparently that is lost on eBay despite Tiffany's unequivocal testimony to that effect. *See* Rich Declaration, Ex. K (Zalewska testimony).[2] The emails and promotional materials proffered by eBay communicate exactly this message, and there is nothing false, misleading or inequitable about that message.

In fact, those communications demonstrate precisely why it is appropriate for Tiffany to request proof of purchase from sellers whom it suspects may be attempting to sell counterfeit Tiffany jewelry. For example, some individuals were improperly using Tiffany's web graphics to sell their "authentic" Tiffany merchandise. *See* Rich Declaration, Ex. B (TCO 043623-24) (seller appears to be selling in bulk); Ex. C (TCO 024100) (seller also reported as selling

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in stores such as Bloomingdales over five years ago are now being resold by any of the individuals with whom Tiffany corresponded.

[2] eBay characterizes Ms. Zalewska's sworn testimony on this subject as "after-the-fact interpretation," but fails to cite to any evidence to support its characterization. *See* eBay Memo at 1. Instead, eBay asserts that "[i]t is self-evident that these statements are false," *id.* at 10, and "such statements by Tiffany are absurd on their face . . . ." *Id.* at 11. eBay's *ipse dixit* assertions carry no weight, especially when they are belied by the documents. *See, e.g.*, Rich Declaration, Ex. C (TCO 12281-82) (individual requests "license" to sell Tiffany goods on eBay, and Tiffany tells her no, that "Tiffany & Co. is the EXCLUSIVE distributor of Tiffany & Co. products," and that "90% of the Tiffany items on eBay are counterfeit"); Ex. D (TCO 3437-40) (individual, who is selling goods that she herself bought on eBay, told that goods are counterfeit, but that she could provide proof of purchase or send goods for evaluation by Tiffany's Quality Assurance Division).

counterfeit Tiffany goods based on a notification from another eBay user)[3]; Ex. E (TCO 001711-12). Others were purporting to sell brand-new "authentic" Tiffany jewelry in large quantities. *See id.*, Ex. B (TCO 039636-37); Ex. D (TCO 031619-21). Others had listings that previously had been removed by Tiffany for selling counterfeit goods. *Id.*, Ex. B (TCO 000154); Ex. C (TCO 012281-82). Others purported to sell authentic Tiffany goods that had been purchased from an individual previously identified as selling counterfeit Tiffany goods. *See id.*, Ex. D (TCO 003437-40), Ex. E (TCO 032110-12). When, as was the case here, indicia of counterfeit goods or copyright infringement was present, Tiffany was entitled to request that the seller produce a proof of purchase or otherwise demonstrate that the goods were "authentic" so that Tiffany could verify that the goods were not infringing. If the seller could have provided such proof, then Tiffany would have had no objection to the listing.

eBay also claims that Tiffany's "About Me" page (Exhibit G to Rich Declaration) contains false statements. *See* eBay Memo at 10. The statements are "false," according to eBay, because "Tiffany repeatedly claims that only items purchased directly from Tiffany can be authentic or legitimate merchandise." *Id.* But, as is the case with the emails discussed above, there is nothing false or misleading about Tiffany's "About Me" page. The page text actually states that "Most of the purported 'TIFFANY & CO.' silver jewelry and packaging available on eBay is counterfeit." *See* Rich Declaration Ex. G (EBAY 11 0862). That is a true statement, and one that eBay has not challenged. The page also states that "[g]enuine Tiffany merchandise is available only through TIFFANY & CO. stores and boutiques . . . ." *Id.* It is clear from the context of the page that this statement refers to new retail jewelry. It does not speak to secondhand goods, and Tiffany does not sell used or secondhand jewelry through its stores and boutiques.

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[3] Not only does eBay mischaracterize this communication, it has failed to submit the email trail in its entirely. *See* Affirmation of Dorothy N. Giobbe, dated August 29, 2005, at ¶ 3 ("Giobbe Declaration". A review of the document in its entirety and Ms. Zalewska's testimony about it (which eBay also fails to submit to the Court) clearly demonstrates that the seller in question attempted to offer a large quantity of purported new, "authentic" Tiffany jewelry. Ms. Zalewska's communications with this seller contain no false statements, and was a legitimate effort to stop the illegal sale of counterfeit goods.

Significantly, eBay's "About Me" pages "allow[] eBay members to tell the Community more about themselves." *See http://pages.ebay.com/help/policies/listing-aboutme.html.* eBay itself controls the type of information contained on the "About Me" pages, and enforces its policies through the threat of (for example) listing cancellation or account suspension. *Id.* Because eBay maintains control over the About Me pages, if eBay in fact believed that Tiffany's statements were untruthful, it should have voiced that belief long before now. Given the control that eBay exercises, having failed to do so, eBay has waived its right to complain about the purported false statement contained therein. *See Six West Retail Acquisition, Inc. v. Sony Theatre Management Corp.*, No. 97 Civ. 5499 (LAP), 2004 WL 691680, at *13 (S.D.N.Y. March 31, 2004).

In sum, Tiffany's alleged conduct is not the type of "truly unconscionable and brazen behavior" that could support a defense of unclean hands. *Gidatex S.r.L. v. Campaniello Imports, Ltd.*, 82 F. Supp. 2d 126, 131 (S.D.N.Y. 1999); *Goldstein v. Delgratia Mining Corp.*, 176 F.R.D. 454, 458 (S.D.N.Y. 1997) (unclean hands defense exists where plaintiff made multiple misrepresentations to court regarding law and facts).

B. Tiffany's Conduct Was Not In Bad Faith

eBay also has failed to demonstrate that Tiffany's conduct was in bad faith. By itself, the making of allegedly false or misleading statements to the public about the nature and scope of a trademark cannot serve as the basis for an affirmative defense of unclean hands when there is no evidence of bad faith. *See Deere & Co. v. MTD Holdings, Inc.*, No. 00 Civ. 5936 (LMM), 2004 WL 1794507, at *2 (S.D.N.Y. Aug. 11, 2004) ("[i]t is undisputed that an unclean hands defense required a finding of bad faith") (citation and internal quotation marks omitted); *see also Russian Kurier, Inc. v. Russian American Kurier, Inc.*, 899 F. Supp. 1204, 1211 (S.D.N.Y. 1995) ("[c]ourts have generally refused . . . to allow the defense of unclean hands in instances in which the trademark was not itself deceptive, but was used in a deceptive manner, such as a false advertisement"). In *Deere,* the plaintiff brought a trademark infringement action against a lawn and garden equipment manufacturer that sold products that used confusingly similar trade dress. The defendant asserted unclean hands as a defense, claiming that the plaintiff had "knowingly misrepresent[ed] the lawful scope of its rights" to the public through various promotional efforts. *Deere & Co. v. MTD Holdings, Inc.*, No. 00 Civ. 5936 (LMM), 2004 WL 1794507, at *1. In striking the unclean hands defense, the court stated that "there is no evidence in the record to support [the defendant's] contention that Deere has intentionally misrepresented the nature and scope of its trademarks and trade dress to the public though bad-faith promotion efforts." *Id.* at *3.

In its attempt to demonstrate bad faith, eBay hypocritically cites to emails in which Tiffany specifically informs the public that sales of both authentic new and secondhand Tiffany goods are permitted on eBay. eBay Memo at 10-11 (citing to Rich Declaration, Ex. E). These emails, eBay argues, demonstrate that "Tiffany is fully aware of the false and misleading nature of its representations." eBay Memo at 10. Thus, according to eBay, Tiffany's actions are unconscionable either way: if Tiffany does not expressly specify that it is referring to new Tiffany jewelry (when it is clear from the context of the communication that there is no need to do so), it is guilty of unconscionable conduct. But, on the other hand, when Tiffany does state that it is permissible to sell authentic Tiffany jewelry secondhand, such statements are evidence that Tiffany is "fully aware" that it has made "false and misleading" representations. *Id.* eBay cannot have it both ways -- either Tiffany makes false statements or it does not. Further, truthful statements cannot be evidence of bad faith, and eBay cites not a single authority to support such a proposition. Also, it is important to note that, in its communications with eBay users, Tiffany was simply following the protocol set up by eBay itself through its VeRO program, pursuant to which Tiffany had a good faith belief that the individuals in the emails were selling counterfeit Tiffany merchandise.

Similarly, eBay's assertion that Tiffany's purchase of vintage jewelry items for its corporate archives via eBay demonstrates "private awareness of the insupportably overbroad nature of [Tiffany's] scare campaign directed to eBay's customers" provides no evidence of bad faith. *See* eBay Memo at 6. As discussed above, Tiffany simply has never suggested that secondhand Tiffany jewelry cannot be purchased on eBay. The fact that Tiffany itself has purchased genuine used merchandise for its corporate archives through eBay does not show that Tiffany had an improper purpose when it enforced and protected its marks against individuals who were illegally selling counterfeit goods.

In sum, eBay fails to point to any evidence showing that Tiffany had an improper purpose in any of its communications.

POINT III

AS A MATTER OF LAW, TIFFANY'S ALLEGED INEQUITABLE CONDUCT IS NOT DIRECTLY RELATED TO THE SUBJECT MATTER OF THE LITIGATION

"It is a well-settled principle of trademark law that 'the defense of unclean hands applies only with respect to the right in suit.'" *Liz Claiborne, Inc. v. Mademoiselle Knitwear, Inc.*, 13 F.

Supp. 2d 430, 445 (S.D.N.Y. 1998) (citation omitted) (alleged bad faith in bringing lawsuit cannot be basis for an unclean hands defense); *accord De Beers LV Trademark Ltd.*, No. 04 Civ. 4099 (DLC), 2005 WL 1164073 at *3 ("[m]isconduct that is 'unrelated to the claim to which it is asserted as a defense,' however, 'does not constitute unclean hands.'" (citation omitted)). When unclean hands is asserted as an affirmative defense in a trademark infringement action, "'what is material is not that the plaintiff's hands are dirty, but that he dirtied them in acquiring the right he now asserts.'" *Liz Claiborne, Inc.*, 13 F. Supp. 2d at 445 (citations omitted); *Procter & Gamble Co. v. Quality King Distributor*, 123 F. Supp. 2d 108, 115-16 (E.D.N.Y. 2000). eBay fundamentally misunderstands this requirement. As discussed below, under this standard, Tiffany's allegedly inequitable conduct is not related to the validity of Tiffany's name and mark or to stop the sale of counterfeit goods. Thus, it cannot be the basis of an unclean hands defense in this action.

eBay contends that a nexus exists because "Tiffany's inequitable conduct arises from its use of the trademarks in suit to make repeated misrepresentations that create confusion about the sources of genuine Tiffany merchandise -- a major issue in this case." *See* eBay Memo at 12. But this lawsuit is not about the sources of genuine Tiffany merchandise. It is about whether, in connection with the sale of indisputably counterfeit goods on eBay, eBay is liable for direct and contributory infringement of Tiffany's trademarks. There can be no dispute that no one has the right to sell counterfeit goods -- what is at issue is eBay's conduct in fostering the sale of such goods. eBay's allegations of "false statements" by Tiffany in this regard fall far short of creating a nexus.

eBay asserts that, "contrary to Tiffany's claims in its June 24 letter, the defense of unclean hands is not limited to situations where the inequitable conduct at issue occurred in 'acquiring' trademark rights." eBay Memo at 9. In rejecting the authority that Tiffany brought to the Court's attention, eBay cites *Estee Lauder, Inc. v. Fragrance Counter, Inc.*, 189 F.R.D. 269 (S.D.N.Y. 1999). *See* eBay Memo at 9, 11. eBay's reliance on *Lauder* is misplaced. *Lauder* involved an assertion that the plaintiff had unclean hands because the enforcement of the trademark had an improper purpose. *Id.* at 270. There, the nexus was obvious -- the defendant alleged that the action itself and the enforcement of the trademark were a tool to drive the defendant out of business and thus to restrict commerce in violation of state and federal antitrust laws. *Id.* at 270, 273. Here, in contrast, eBay's alleged defense is not linked to the purpose underlying the lawsuit or Tiffany's enforcement of its trademark. Indeed, eBay does not accuse Tiffany of wrongfully interfering with the sale of goods by a so-called competitor, as occurred in *Estee Lauder*.[4] Rather, as noted above, there is no dispute about the sale of counterfeit goods on eBay. Thus, eBay is unable to garner any support from *Estee Lauder*.

Even assuming *arguendo* that eBay's assertions regarding Tiffany's communications with eBay sellers are true, these statements could never be a basis for the Court to deny Tiffany and unwitting consumers relief from the sale of counterfeit merchandise.

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[4] In passing, eBay argues that Tiffany has scared buyers away from purchasing genuine Tiffany goods on eBay. *See* eBay's Memo at 6. The two emails that eBay cites in support of that proposition, however, prove nothing of the sort. In each instance, the person was attempting to resell counterfeit goods that he or she had bought on eBay, and Tiffany legitimately told each person that such goods could not be resold. *See* Rich Declaration, Ex. D (TCO 003437-40; TCO 031619-21). Further, if eBay wants to argue that the nexus to this case is that Tiffany's speech has caused buyers to stay away from eBay, then eBay has the burden of proving that Tiffany's speech has deceived people not to buy genuine Tiffany goods on eBay, as Tiffany advised the Court in its June24, 2005 letter. As a result, eBay's effort to disparage Tiffany's analysis regarding false speech is undermined by eBay's own argument in support of its affirmative defense.

CONCLUSION

For the foregoing reasons, Defendant's motion to amend its answer should be denied in its entirety.

Dated: New York, New York
August 29, 2005

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CERTIFICATE OF SERVICE

I, Dorothy N. Giobbe, the undersigned attorney at law duly admitted to practice in the State of New York, respectfully show that on the 29th day of August, 2005, I caused the annexed **PLAINTIFFS' MEMORANDUM OF LAW IN OPPOSITION TO DEFENDANT'S MOTION TO AMEND ITS ANSWER** to be served via hand delivery upon:

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Dorothy N. Giobbe